

# ICPS newsletter

## Agricultural reform: Creating real owners and developing market infrastructure

***The recession in the agricultural sector that has been observed over the last decade results from the absence of clearly defined property rights, unresolved structural problems on farms, and ineffective agricultural policy. To deal with these problems, the Ukrainian President launched a program of reform in the agricultural sector at the end of 1999. The Presidential Decree "On immediate measures to reform the agricultural sector" dated December 3, 1999, according to which land and assets of collective farms were privatised, has had a significant impact on agricultural reform. Participants of a public discussion on "Reforms in Agriculture", conducted as part of ICPS's "Ukraine's Future: Public Feedback on Reform Policy" project, focused on an action plan for further reforms in Ukrainian agriculture***

Land reform has resulted in the emergence of private owners in agriculture

During December 1999–April 2000, collective farms were reformed on the basis of private ownership of land and assets. "People's land reform implemented in Ukraine is unique with regard to its conflict-free character and social orientation", said Mr. Pavlo Haidutsky, deputy head of the Administration of the President of Ukraine. State-owned or collective land and production assets have been very quickly transferred to real private owners.

Mr. Haidutsky noted that no post-socialist country managed to achieve such a large-scale privatisation of 10,000 enterprises in any economic sector during such a short period of time (4–5 months). The main feature in the privatisation of agricultural enterprises has been support to the former directors and specialists of collective farms. According to Mr. Haidutsky, the conflict-free

*During May–June 2000, the International Centre for Policy Studies, jointly with the Secretariat of the Cabinet of Ministers and the Ministry of the Economy of Ukraine, with the financial support of Freedom House, is carrying out a project titled "Ukraine's Future: Public Feedback on Reform Policy".*

*The project is aimed at achieving the following objectives: promoting the democratic practice of public participation in decision-making by conducting public discussions of policy options; increasing awareness of the steps taken by the President and the government as part of the reform strategy; and improving communication between government agencies and public organisations. Participants of these meetings will discuss the implementation of the Government Action Plan as concerns the given activities.*

*This project entails conducting a series of seminars to build a general public understanding of the goals of public policy and a unified vision of social priorities and certain measures. Public discussions are planned on the following topics:*

- public discussion of the government Action Plan (April 15);
- agricultural reform (May 12);
- regional policy (May 17);
- budget policy (May 25);
- changes in the business environment (June 1);
- reform policy in the power sector (June 8);
- administrative reform (June 15).

*Representatives of the Administration of the President of Ukraine, the Verkhovna Rada, the Cabinet of Ministers, non-government organisations, the mass media, and international experts are invited to participate in the public discussions.*

*Please note that dates of seminars have been changed from those announced previously.*

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character of this process demonstrates the rationality of the chosen methods.

Mr. Ivan Kyrlyenko, Minister of Agricultural Policy of Ukraine, pointed out that the first stage of reform was aimed at shifting collectively owned land shares and assets to private ownership. The emergence of private ownership in the agricultural sector is the major outcome of the first stage of agricultural reforms. The status of private enterprises, established on the basis of former collective farms, has been legalised. Newly created private enterprises and real landowners have concluded lease contracts on land and asset shares.

There is grounds to foresee the development of a real agricultural produce market during the second phase of agricultural reform. Mr. Haidutsky emphasised that the development of this market, where real owners will operate, is the necessary prerequisite for

spurring the financial recovery of the agricultural sector, increasing its investment and credit attractiveness.

Mr. Kyrlyenko informed seminar participants that currently the agriculture ministry was drafting a Presidential Decree "On the development and functioning of an agricultural market infrastructure". The draft decree will be prepared by June. According to Mr. Kyrlyenko, this document should stimulate the operation of various agents in the agricultural produce market, including agricultural exchanges, trade houses, storage and sales cooperatives, wholesale fruit and vegetable exchanges, and cattle auctions.

Mr. Kyrlyenko noted that today the major objective of the ministry is to maintain the high pace of agricultural reform achieved during its first stage.

## Agricultural reform means an investment in the future

Ms. Petra Opitz, an expert with the German Advisory Group on Economic Reform to the Ukrainian Government, believes that, after several years of depression in agricultural policy, the President and the government of Ukraine have succeeded in taking decisive steps forward. It is very important for the Ukrainian government to hold the initial course and actively implement further changes, as agricultural reform means an investment in the future.

Among the positive decisions have been the suspension of government intervention in the supply of inputs and the elimination of close regulation of the agricultural produce market. Government intervention and regional trade limitations significantly hampered the development of agriculture and caused the loss of confidence in public policy on the part of investors, who were forced to quit the Ukrainian market. Ms. Opitz stressed that this year Ukraine should demonstrate to the world that business could be done here like in any Western or Central European countries.

According to the German expert, in order to increase the effectiveness of agrarian reform, the Ukrainian government should realise the following measures:

- continue the process of liberalisation of agricultural produce trade, and abolish obstacles to exports, particularly the export tariff on sunflower seeds;
- guarantee free market entry and operation in the sphere of agricultural produce processing. Government officials should not be able to interfere in the activities of

### *Summarised proposals on agricultural reform*

*During group work, discussion participants focused on formulating (a) recognised goals of public policy towards reform in the agricultural sector; (b) overall problems of agriculture acknowledged by the public and by experts; (c) tools for implementing reform in the agricultural sector; (d) additional measures which are very much needed but missed in the Government Action Plan.*

*Summarised proposals are presented in the table below.*

<b>Recognised goals of public policy towards reform in the agricultural sector:</b>	<b>Overall problems of agriculture acknowledged by the public and by experts</b>
<ul style="list-style-type: none"><li>• increase living standards of the rural population by providing conditions for market mechanisms to function;</li><li>• develop an effective agricultural sector on the basis of private ownership;</li><li>• establish a market environment and ensure favourable conditions for conducting business in the agricultural sector;</li><li>• promote the development of competitive agriculture.</li></ul>	<ul style="list-style-type: none"><li>• unresolved issues of land and asset ownership;</li><li>• moribund infrastructure of the agricultural market;</li><li>• moratorium on bankruptcy of farms;</li><li>• insufficient institutional capacity of the government to implement adopted decisions;</li><li>• lack of incentives to lend to the agricultural sector;</li><li>• insufficient informational support of land reform.</li></ul>
<b>Tools for implementing reform in the agricultural sector:</b>	<b>Additional measures which are very much needed but missed in the Government Action Plan:</b>
<ul style="list-style-type: none"><li>• reorganise collective farms;</li><li>• conduct public discussions of the Land Code;</li><li>• promote legislative and institutional conditions for the development of the agricultural commodity and service markets;</li><li>• promote legislative and institutional conditions for the development of the agricultural commodity and service markets;</li><li>• establish centers of reform and advisory boards.</li></ul>	<ul style="list-style-type: none"><li>• create all components of agricultural market infrastructure;</li><li>• design a public strategy for agricultural sector development;</li><li>• abolish the moratorium on bankruptcy of agricultural enterprises;</li><li>• provide information for citizens;</li><li>• develop a state research program for the agricultural sector;</li><li>• train market-oriented specialists.</li></ul>

processing enterprises and agricultural produce sales;

- abolish the moratorium on agricultural enterprise bankruptcy, which will result in the liquidation of non-profit enterprises and

encourage the attraction of foreign funds to Ukrainian agriculture. ■

*The public discussion on "Reform in Agriculture" was hosted by the International Centre for Policy Studies on May 12, 2000.*

## Entrepreneurs discuss the draft Tax Code

***The Coordination and Analytical Center for Ukrainian Business Associations (CACUBA) hosted a roundtable on "The Simplified System of Taxation for Small Businesses in the Draft Tax Code" held at ICPS on May 13. During the discussion, representatives of business associations, public officials, and people's deputies of Ukraine spoke on the place of the simplified taxation system for small businesses in the Tax Code***

Mr. Yuri Yekhanurov, first deputy prime minister of Ukraine, informed meeting participants that a working group on completing the draft tax code to be submitted to the Verkhovna Rada was established at the end of April. The Government Committee on Economic Development should approve a list of taxes and levies, which will be included in the tax code, in the next meeting. Mr. Yekhanurov believes that it is necessary to ensure transparent and clear provisions of the tax code, in order that every member of society realises his/her responsibility for paying taxes, and for firms to stop operating in the shadow economy. Public discussion of certain aspects of this document is an effective way to involve businesses in the process of developing the tax code.

Today, maximum preservation of the

advantages of the current simplified taxation system is very important. Ms. Ksenia Liapina, coordinator of the CACUBA's analytical and expert group, argues that this policy will provide an opportunity to demonstrate that positive changes in the taxation system are stable and continued, and win business confidence in the government.

However, to make the simplified taxation system more effective, its current methods—special trade licenses, the fixed tax, and the integrated tax (see *ICPS newsletter* #58)—need to be harmonised and formed as a specific chapter of the Tax Code, titled "Special Taxation Regime for Small

Businesses". This chapter should be based on the provisions of the simplified taxation system introduced by presidential decrees and laws of Ukraine.

According to CACUBA experts, methods of simplified taxation should be clearly classified. For example, individual entrepreneurs pay a fixed rate of the integrated tax. However, individual entrepreneurs carrying on business activities in markets should pay the so-called integrated tax with specific terms. If ordinary integrated taxpayers may have 10 employees with sales incomes of less than 500,000 hryvnias per year, entrepreneurs carrying on business activities in markets should be allowed to have not more than 5 employers, and annual sales incomes of less than 119,000 hryvnias.

Ms. Liapina added that the ceiling of sales incomes per year for legal entities should be increased from 1 million hryvnias to 5 million hryvnias. ■

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